

Case 95-C-0657
Case 94-C-0095
CASE 91-C-1174

REBUTTAL TESTIMONY OF
T. J. TARDIFF

1 was attached to MCI's opening comments claims that about half of the LEC's
2 current plant represents overinvestment. Apart from the facts that this label is
3 entirely circular and Hatfield's estimate of the so-called gap is fatally flawed by
4 the theoretical and measurement problems with the Hatfield models, it defies
5 common sense to believe that the overinvestment of this degree could take
6 place.²⁵

7 Of course, the more important concern is how network elements are unbundled
8 in a way that promotes competition. Basing prices on costs that no real-world
9 provider could hope to meet is *anti-competitive*, because it would stifle, not
10 promote the most effective type of competition—facilities-based. In addition,
11 requiring incumbent LECs to sell inputs at non-compensatory rates would have
12 the deleterious effects of forcing other customers to subsidize the below-cost
13 input prices and/or severely handicapping firms that represent a substantial
14 proportion of this dynamic industry.

15 Q. Mr. Floyd reports that the Washington State Commission has apparently
16 endorsed a version of the Hatfield model. Is this significant for this Commission?

²⁵ Some of the gap between book investment and forward looking investment could represent the effect of the decline in prices for facilities such as end office switches. The fact that current prices recover some of these costs is entirely consistent with the economic fact that with technological change, no firm could survive by charging prices that completely reflect the decline in new equipment prices; as Professor Hausman's recent affidavit cogently demonstrates.

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1 A. Obviously, this Commission will weigh the evidence put forward by the various
2 parties, taking notice of actions in other jurisdictions as appropriate. Of course,
3 circumstances differ between jurisdictions, so that Commission rulings will differ
4 accordingly.

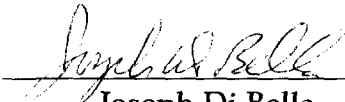
5 Having said this, I believe that the recent Proposed Decision by the California
6 Commission is perhaps even more germane to the case at hand. AT&T and MCI,
7 as members of the California Telecommunications Coalition, severely criticized
8 Pacific Bell's cost studies and argued that the Hatfield model should be used
9 instead. The Administrative Law Judge concluded otherwise: "Pacific's cost
10 studies adequately conform to the TSLRIC principles adopted in D.95-12-016 so
11 that, with the adjustments we order in this decision, such studies can be used as
12 the basis for setting prices for bundled and unbundled BNFs and services."
13 (Conclusion of Law 2.)

14 Q. Does this complete your testimony?

15 A. Yes.

CERTIFICATE OF SERVICE

I hereby certify that copies of this pleading were mailed this date, first class postage prepaid, upon the persons listed on the attached service list.



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Dated: August 9, 1996

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